

CASINO REINVESTMENT DEVELOPMENT AUTHORITY

Report on Examinations of Financial Statements

For the Years Ended December 31, 1986 and 1985

January 9, 1987

Chairman and Members of the Board
Casino Reinvestment Development Authority
Atlantic City, New Jersey

We have examined the statements of financial position of the Casino Reinvestment Development Authority as of December 31, 1986 and 1985, and the related statements of revenues and expenditures and changes in fund equity and statement of revenues, expenses and changes in retained earnings and changes in financial position of the Development Fund for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Casino Reinvestment Development Authority at December 31, 1986 and 1985, and the results of its operations and the changes in financial position of the Development Fund for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.

Certified Public Accountants

CASINO REINVESTMENT DEVELOPMENT

STATEMENTS OF FINANCIAL

DECEMBER 31, 1986 AND

	<u>Operating Fund</u>	
	<u>1986</u>	<u>1985</u>
<u>A S S E T S</u>		
Cash and investments (Note C)	\$ 1,178,737	\$ 211,
Investments held by the State of New Jersey (Note D)	-	758,
Obligations receivable, net of allowance for doubtful accounts of \$832,105 for 1986 and 1985 (Note E-2)	-	-
Prior obligations receivable (Note E-1)	-	-
Loan receivable	-	-
Other receivables	3,063	-
Due from Reinvestment Fund	324,918	-
TOTAL ASSETS	\$ 1,506,718	\$ 970,
<u>LIABILITIES AND FUND EQUITY</u>		
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 65,901	\$ 63,
Interest due to licensees	-	-
Loans payable	-	300,
Other payable	-	-
Deferred investment obligations (Note E-1)	-	-
Bonds payable	-	-
Due to Operating Fund	-	-
TOTAL LIABILITIES	65,901	363,
FUND EQUITY:		
Retained earnings	-	-
Fund balances:		
Reserve for small businesses, minorities and women's enterprises (Note G)	-	-
Reserve for indemnification (Note H)	250,000	-
Reserve for current projects (Note F)	-	-
Reserve for future projects	-	-
Unreserved	1,190,817	606,
TOTAL FUND EQUITY	1,440,817	606,
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,506,718	\$ 970,

See notes to financial

CASINO REINVESTMENT DEVELOPMENT AUTHORITY

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY

OPERATING FUND

	Year ended December 31,	
	1986	1985
Revenues:		
Interest	\$1,399,027	\$ 762,018
Project processing and other fees	9,556	-
Total revenues	<u>1,408,583</u>	<u>762,018</u>
Expenditures:		
Salaries and benefits	278,250	70,118
Professional fees	237,030	85,351
General and administrative	51,647	-
Capital outlay (Note B-3)	7,062	-
Other	-	326
Total expenditures	<u>573,989</u>	<u>155,795</u>
Excess of revenues over expenditures	834,594	606,223
FUND EQUITY, beginning of the year	<u>606,223</u>	<u>-</u>
FUND EQUITY, end of the year	<u>\$1,440,817</u>	<u>\$ 606,223</u>

See notes to financial statements

CASINO REINVESTMENT DEVELOPMENT AUTHORITY

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY

REINVESTMENT FUND

	Year ended December 31,	
	1986	1985
Revenues:		
Investment obligations (Note E and L)	\$48,471,395	\$56,012,543
Interest	2,716,859	1,280,930
Total revenues	<u>51,188,254</u>	<u>57,293,473</u>
Expenditures:		
Interest to licensees	2,716,859	1,280,930
Allowance for doubtful accounts	-	832,105
Direct investment (Note J)	7,504,070	-
Discount on prepayment	554,593	-
Bond issuance (Note F)	68,008	-
Total expenditures	<u>10,843,530</u>	<u>2,113,035</u>
Excess of revenues over expenditures	40,344,724	55,180,438
FUND EQUITY, beginning of the year	<u>55,180,438</u>	<u>-</u>
FUND EQUITY, end of the year	<u>\$95,525,162</u>	<u>\$55,180,438</u>

See notes to financial statements

CASINO REINVESTMENT DEVELOPMENT AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS

DEVELOPMENT FUND

FOR THE YEAR ENDED DECEMBER 31, 1986

Revenues:	
Interest	\$ 40
Project processing and other fees	<u>732</u>
Total revenues	<u>772</u>
Expenses:	
Interest payable to licensees	<u>39</u>
Total expenses	<u>39</u>
NET INCOME	733
Retained earnings, beginning of the year	<u>-</u>
Retained earnings, end of the year	<u>\$733</u>

See notes to financial statements

CASINO REINVESTMENT DEVELOPMENT AUTHORITY

STATEMENT OF CHANGES IN FINANCIAL POSITION

DEVELOPMENT FUND

FOR THE YEAR ENDED DECEMBER 31, 1986

FUNDS PROVIDED FROM:

Operations:

Net income	\$ 733
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Funds provided by operations	733
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Increase in bonds payable	68,008
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Increase in interest payable	39
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Increase in other payable	2,442
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TOTAL FUNDS PROVIDED	71,222
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FUNDS APPLIED TO:

Increase in loan receivable	68,008
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Increase in other receivables	40
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TOTAL FUNDS APPLIED	68,048
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NET INCREASE IN CASH AND INVESTMENTS	\$ 3,174
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See notes to financial statements

CASINO REINVESTMENT DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1986 and 1985

A. ORGANIZATION

The New Jersey Casino Reinvestment Development Authority (CRDA) was created pursuant to Chapter 218 of P.L. 1984, effective December 19, 1984. Under the law, licensees (casinos) are required to pay 2.5% of their gross revenues as a tax or to invest 1.25% of gross revenues in bonds of the CRDA. The bonds are used to finance projects approved by the CRDA, in Atlantic City, South Jersey and North Jersey. The CRDA can approve direct investments made by the licensees, and approved investments may be used to satisfy the licensees investment obligation.

The CRDA is governed by a board of twelve members appointed as follows:

Voting Members:

Five members appointed by the Governor of the State of New Jersey with the consent of the New Jersey State Senate.

One member appointed by the Governor upon the recommendation of the President of the Senate.

One member appointed by the Governor of the State of New Jersey upon the recommendation of the Speaker of the General Assembly of the State of New Jersey.

One member of the New Jersey Casino Control Commission appointed by the Governor of the State of New Jersey.

The Mayor of Atlantic City.

Non-Voting Members:

The State Treasurer.

Two members appointed by the Governor of the State of New Jersey representing the casino industry.

The CRDA as created pursuant to law is to:

Maintain public confidence in the New Jersey casino gaming industry as a unique tool of urban redevelopment for the City of Atlantic City, New Jersey and to directly facilitate the redevelopment of blighted areas in New Jersey by providing eligible projects in which licensees (casinos) can invest.

Provide loans and other financial assistance for the planning, construction, rehabilitation and repair of housing, recreation, transportation, education and community service facilities to provide decent, safe and sanitary living conditions for persons of low, moderate, median and middle incomes.

Assist in financing buildings, infrastructure and other property to increase opportunities in manufacturing, industrial, commercial, entertainment, and service enterprises to induce and accelerate opportunity for employment in those enterprises.

Promote the tourist industry in New Jersey, especially in Atlantic City.

Encourage investment in, or financing of, projects which are made as part of a comprehensive plan to improve blighted areas in New Jersey or areas that are targeted to benefit low through middle income New Jersey residents.

The CRDA is established in, but not of, the Department of the Treasury of the State of New Jersey and is a component unit of the State of New Jersey for financial reporting purposes.

The State Treasurer is required to approve all bond resolutions, loan agreements, and the annual operating budget.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of presentation

The accompanying financial statements have been prepared in conformance with generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board and the Financial Accounting Standards Board. The accounts of the CRDA are organized on the basis of funds, each of which is defined as a fiscal and accounting entity. For purposes of financial reporting they are presented as follows:

Governmental Fund Type:

Operating Fund is used to account for all administrative and general transactions relating to the general operations of the CRDA. Revenues are derived primarily from one third of the interest earned on the investment of the obligations received by the CRDA from the licensees prior to the issuance of bonds.

Fiduciary Fund Type:

Reinvestment Fund is used to account for the receipt of the investment obligations from licensees which are available to finance projects. Investment obligations are held in this fund until bonds have been issued for approved projects. The Reinvestment Fund is accounted for as an expendable trust fund for financial reporting purposes. Two thirds of all interest earned on investments held in the Reinvestment Fund is due to the licensees.

Proprietary Fund Type:

Development Fund is used to account for all bonds issued to finance projects with investment obligations and the corresponding loans receivable from those projects.

2. Basis of accounting

The Operating Fund and the Reinvestment Fund are accounted for on the modified accrual basis of accounting. Revenues (receivables) are recorded in the accounting period that it becomes both measurable and available to finance operations of the current period. The principal revenue source for the Operating Fund consists of one-third of the investment earnings on investments held in the Reinvestment Fund. Investment earnings are recognized when earned. Receivables that are not considered available to finance current operations are recorded as deferred revenue. Expenditures and related liabilities are recorded in the accounting period the liability is incurred.

The Development Fund is accounted for on the accrual basis of accounting.

3. Capital outlay

The CRDA has acquired fixed assets, consisting primarily of computer equipment, at a cost of \$7,062.

C. CASH AND INVESTMENTS

The "Securities Purchase Contract" between the CRDA and the licensees prescribes the type of investments allowed in the Reinvestment Fund. There are no written policies governing the Operating Fund investments; however, the CRDA has applied the policies set forth in the "Securities Purchase Contract" to the investments of the Operating Fund.

The "Securities Purchase Contract" requires that all investments be as follows:

Direct obligations of or obligations unconditionally guaranteed by the United States or direct obligations of or obligations unconditionally guaranteed by any state of the United States. If the latter is chosen, the securities must be rated in any of the two highest rating categories by a nationally recognized rating service.

Repurchase agreements that are collateralized by direct obligations of or obligations unconditionally guaranteed by the United States. The collateral must have a market value at all times equal to the repurchase price, and they must be perfected for the benefit of the CRDA.

The New Jersey Cash Management Fund.

Certificates of Deposit issued by a bank, trust company, national banking association, savings and loan association or other financial institution that are fully and continuously secured by direct obligations of, or obligations unconditionally guaranteed by, the United States of America. The securities underlying the Certificates of Deposit must have a market value at all times equal to the principal amount of such certificates of deposit, and must be held in such a manner as may be required to provide a perfected security interest for the benefit of the CRDA.

CRDA Investment Analysis at December 31, 1986:

	<u>Carrying amount</u>	<u>Market value</u>	<u>Fund</u>
Repurchase Agreements:			
Collateralized with securities held by the pledging financial institutions in the CRDA's name	\$ 597,000	\$ 597,000	Operating
Collateralized with securities held by the pledging financial institution in its name	<u>7,700,000</u>	<u>7,700,000</u>	Reinvestment
	<u>8,297,000</u>	<u>8,297,000</u>	
Cash Management Fund:			
	577,017	577,017	Operating
	<u>60,878,119</u>	<u>60,878,119</u>	Reinvestment
	<u>61,455,136</u>	<u>61,455,136</u>	
	<u>\$69,752,136</u>	<u>\$69,752,136</u>	
Deposits:			
Insured (FDIC)	\$ 4,720	\$ 4,720	Operating
Insured (FDIC)	500	500	Reinvestment
Insured (FDIC)	<u>3,174</u>	<u>3,174</u>	Development
	<u>\$ 8,394</u>	<u>\$ 8,394</u>	

At December 31, 1986, the CRDA had investments of \$7,700,000 in repurchase agreements which were collateralized with securities permitted by the "Securities Purchase Contract." However, the security interest in the securities was not perfected as required by the "Securities Purchase Contract." Subsequent to year end these repurchase agreements have matured and all investments held as of January 9, 1987 are in accordance with the provisions of the "Securities Purchase Contract" and CRDA policy.

D. INVESTMENTS HELD BY THE STATE OF NEW JERSEY

Investments held by the State of New Jersey in the amount of \$51,746,976 represent the obligations collected by the State Treasurer as of December 31, 1985, which were held until the CRDA established its Rules and Regulations. On June 16, 1986, the State remitted these investments to the CRDA. Investments in the amount of \$20,779,793 represent obligations collected by the State Treasurer on December 31, 1986 for the licensees' 1981 obligations. Investments held by the State are invested in the State of New Jersey Cash Management Fund.

E. INVESTMENT OBLIGATIONS

1. Obligations incurred by licensees operating prior to the establishment of the CRDA, based upon two percent of its gross revenue, are payable to the CRDA in accordance with the following schedule:

1979	due and paid	1984
1980	due and paid	1985
1981	due and paid	1986
1982	due	1987
1983	due	1988

For financial reporting purposes, these amounts are recorded as deferred revenues and recognized as revenue in the year the payments are due and available to finance operations. As of December 31, 1986 and 1985, the prior obligations totaled \$39,144,642 and \$60,479,028, respectively.

2. Investment obligations under the CRDA statute represent amounts incurred by licensees based upon 1.25% of their gross revenues. Investment obligations are considered available and are recognized as revenue at the time gross revenues are earned by casino licensees, in accordance with the revenue recognition criteria applicable to the Reinvestment Fund. Payments are due quarterly on April 15, July 15, October 15 and January 15.

3. All obligations are held in the Reinvestment Fund until projects are approved by the CRDA's Board. At that time they are used for the purpose of purchasing bonds issued by the CRDA for financing projects, financing licensees' direct investment projects, and the purchase of the Small Businesses, Minorities, and Women's Enterprises Authority's bonds.

F. CURRENT PROJECT COMMITMENTS

On September 5, 1986, the CRDA granted final approval on a \$6,800,000 housing project entitled Northwest Inlet Revitalization Project. As of December 31, 1986, \$68,008 in bonds, related to Phase I of the project, have been issued. Resorts International Hotel, Inc. and Boardwalk Regency Corporation (Caesars) purchased \$24,958 and \$43,050, in bonds respectively. The remaining \$6,731,992 of the project commitment is shown as a reservation of the fund balance of the Reinvestment Fund.

On December 19, 1986, the CRDA granted final approval on a \$21,000,000 housing project entitled The Vermont Plaza Project. The entire \$21,000,000 is shown as a reservation of the fund balance of the Reinvestment Fund subject to adoption of a bond resolution by the CRDA.

G. RESERVE FOR THE NEW JERSEY DEVELOPMENT AUTHORITY FOR SMALL BUSINESSES, MINORITIES AND WOMEN'S ENTERPRISES

NJSA 5:12-181 requires the CRDA to set aside \$1,200,000 annually for the purpose of investing in obligations of the New Jersey Development Authority for Small Businesses, Minorities and Women's Enterprises. As of December 31, 1986, the CRDA has reserved \$3,600,000.

H. DIRECTORS AND OFFICERS LIABILITY INSURANCE

On January 10, 1986, the CRDA received an opinion from the Attorney General of the State of New Jersey, stating that the CRDA is entitled to immunity from liability for its policy-decisions as provided in the Tort Claims Act; however, the CRDA is not covered for damages not immunized by the Act. On August 8, 1986, the CRDA approved the establishment of a \$1,000,000 Indemnification Fund as a reservation of the fund balance of the Reinvestment Fund.

Each year, the CRDA is required to reduce the reserve in the Reinvestment Fund by \$250,000 and establish a reserve in the Operating Fund in an equal amount. In the event any amount of the Indemnification Fund is used for purposes for which it has been established, the CRDA will replenish that amount from operating revenue but not more than \$250,000 per year.

I. FIDELITY BOND

The CRDA has a \$100,000 Honesty Blanket Bond supplied by Pennsylvania National Mutual Casualty Insurance Company covering all of its employees.

J. DIRECT INVESTMENTS

On July 11, 1986, the CRDA approved an application by Bally's Park Place, Inc. for a direct investment for the Jacobs Family Terrace Housing Project. As of December 31, 1986, Bally's was granted a direct investment in the amount of \$7,504,070 as a credit against its 1984, 1985 and 1986 obligations.

K. BUDGETARY REQUIREMENTS

The CRDA operates under a budget approved by its board. The annual operating budget is submitted by the last day of October of each year to the State Treasurer for approval.

L. RECONCILIATION OF LICENSEE GROSS REVENUES TO INVESTMENT OBLIGATION REVENUE

1986 gross revenues of licensees	\$2,265,537,615
Less: Trump Castle revenue earned from 1/1/86 - 6/17/86 exempt from tax	<u>(94,576,978)</u>
1986 gross revenues of licensees subject to alternate tax	2,170,960,637
	<u>X 1.25%</u>
Obligation revenue	<u>27,137,008</u>
Prior obligation	13,367,955
Prepayment of 1982 prior obligation	3,796,225
Prepayment of 1983 prior obligation	<u>4,170,207</u>
Prior obligation revenue	<u>21,334,387</u>
Investment obligation revenue	<u>\$ 48,471,395</u>